



Economic Affairs Interim Committee

67th Montana Legislature

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February 24, 2022

Dear Members of the Revenue Interim Committee:

At the request of your committee, the Economic Affairs Interim Committee (EAIC) heard public comment on the proposed Constitutional Initiative 121 (CI-121) at its meeting conducted on February 10, 2022. The EAIC specifically asked for public comment on how CI-121 would affect its committee's policy areas, and heard testimony from representatives for agriculture, local governments, infrastructure, a variety of industry groups, and the labor force.¹ All ten groups that commented oppose CI-121 for the following reasons, specific to economic affairs.

Tax shifts to other property classes

CI-121 establishes a limit on residential property tax only, which may set up a tax shift to other tax classes.

- **Agricultural property:** Property taxes are input costs that cannot be passed on, so any increase directly affects a farm or ranch's bottom line.
- **Commercial property:** While some larger businesses may be able to absorb the increased cost, most small businesses will not, resulting in increased prices of goods and services.
- **Business equipment tax:** Tax shifts could result in potential reversal of recent changes to the business equipment tax or changes to other taxes that impact businesses directly.

Limitations to the workforce

In order to meet the state's economic and workforce needs, workers must be able to be mobile, find housing, and earn a living wage, and local communities must have workers to provide essential services for their citizens.

- **Workforce housing:** Tax incentives created by CI-121 may disincentivize the listing of homes on the market, creating lower inventory and higher home prices, which results in difficulty for first-time homebuyers, young families, and workers moving for new jobs. Additionally, new property owners will face higher taxes than older, often wealthier

¹ Public testimony provided by the Montana Chamber of Commerce, Montana Infrastructure Coalition, Montana Association of Realtors, Montana Federation of Public Employees, Montana Farm Bureau Federation, Montana Contractors Association, AFL-CIO, Montana Budget & Policy Center, Montana League of Cities and Towns, and Montana Farmers Union

neighbors, making it harder for younger Montanans to stay and work in Montana and purchase homes.

- **Increased costs of goods and services:** An unintended consequence of tax shifts will likely hit hardest the workforce who are already struggling to afford buying a home and compete in the competitive housing market and who are facing undercuts in their paychecks.
- **Loss of resources for public sector workforce:** Caps imposed in CI-121 may result in loss of revenue for public services such as fire departments and schools, many of which are already dealing with outdated infrastructure, under-resourced services, and limited workforce, especially in rural areas. If CI-121 cuts funding for schools and infrastructure, these public service workers will be "asked to do even more with even less."

The EAIC did not hear any testimony in which CI-121 would have a positive effect on any policy area under its purview and requests the Revenue Interim Committee continue to further examine the issue with this feedback in mind.

If you have questions, or for details on additional public comment received not specific to economic affairs, please contact our committee staff, Erin Sullivan, at erin.sullivan@mt.gov.

Sincerely,

/s/

Sen. Kenneth Bogner, presiding officer